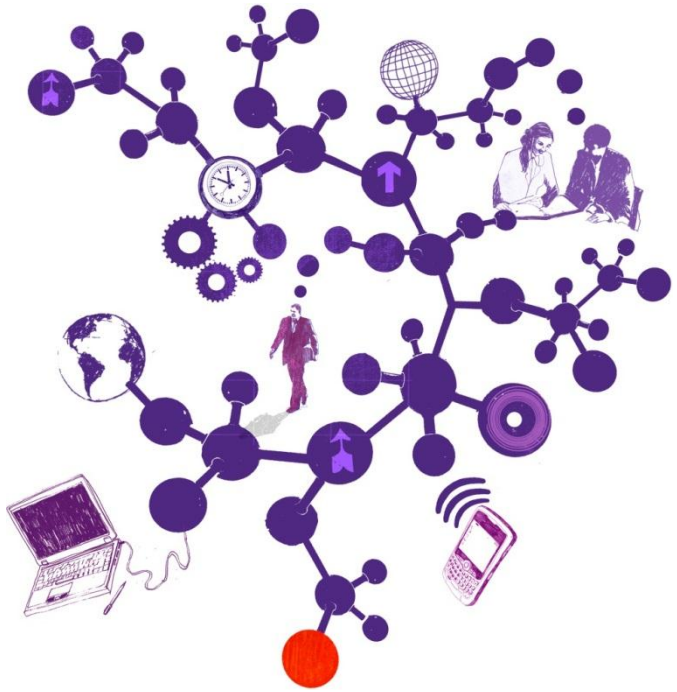
Audit Committee Update for Oldham Metropolitan Borough Council

Year ended 31 March 2014

5 December 2013



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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a metropolitan borough council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 25 November 2013

Work	Planned date	Complete?	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	April 2014	No	We will be discussing the timetable for the work to support the preparation of the Accounts Audit Plan with officers during December 2013.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	November 2013 to March 2014	No	Our work is underway and we will present the results of our interim work to the Audit Committee in March 2014.
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion	April to May 2014	No	We will complete our work in sufficient time to meet your requested deadline of 28 May 2014.

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Progress at 25 November 2013

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion includes a detailed risk assessment of your arrangements to secure economy, efficiency and effectiveness in its use of resources. The work will look at the two criteria set by the Audit Commission covering: • The organisation has proper arrangements in place for securing financial resilience • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	January to March 2014, with a final revisit of findings prior to the issuing of our VfM Conclusion in May 2014.	No	We plan to complete the majority of our work by March 2014.
Other areas of work 2012/13 grant claim certification: • Pooling of Capital Receipts • NNDR • Housing Benefit and Council Tax Benefit • Teachers' Pensions	All grant work to be completed within grant specific deadlines.	Yes	All grant claims and returns have been completed with required deadlines..
Other activity undertaken The team has regular meetings with: • Internal Audit to discuss plans and progress for the 2013/14 audit • Members of the Finance Team to discuss the audit and closedown plans for 2013/14.	On-going	N/a	Regular contact is essential to ensure we continue to deliver an audit that considers all relevant risks.

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Emerging issues and developments

Local government guidance

Income from charging

In September, the Audit Commission published ‘Income from charging: Using data from the VFM Profiles, September 2013′. The briefing provides an analysis of councils' 2011/12 income from charging, totalling £10.2 billion, and the contribution it made to service spending. It looks at the trends for different types of councils across broad service areas.

Key findings were:

- charging in 2011/12 funded 9 per cent of single-tier and county councils’ overall service expenditure, and 20 per cent of district councils
- nationally the total income from charging was less than half the amount raised through council tax in 2011/12, at the local level it exceeded council tax in one in three (32 per cent) district councils and one in five (21 per cent) London boroughs
- there is great variation between councils in terms of the amount of income they generate from charges, the ratio of charging income to service spending, and the changes to these over recent years. The contribution of charging to spending in 2011/12 varied most for district councils, with 2 to 87 per cent being generated through charges.

The Audit Commission chairman, Jeremy Newman, said 'There is no ‘one-size-fits-all’ formula for how councils set their local charging policies. We are providing information and tools for councils, and those who hold them to account, to help understand the important role that charging plays in councils’ strategic financial management. The fact that some bodies derive more income from charging than council tax is neither good nor bad, but highlights the significant role charging plays in funding public services, and reminds councillors and electors to carefully scrutinise the approaches councils are taking.'

Areas to consider:

- When did the Council last review its local charging policy? Does the Council's policy still support the Council's strategic objectives? What options are available for change?
- Does the Council monitor changes in income from charging and its contribution to spending in order to assess whether local charging policies are supporting the council’s financial objectives and complying with legal requirements?
- Has the council's charging policy and levels of income been reviewed against similar organisations?
- Where issues have been identified, has an action plan been implemented?

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Emerging issues and developments

Local government guidance

Business rate collection

In April 2013, the government introduced a business rates retention scheme. Local authorities as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, authorities will keep half of the growth.

In October, the Audit Commission published 'Business rates: using data from the VFM profiles October 2013'. This briefing has been drawn from the Commission's Value for Money (VFM) profiles and shows an analysis of English council's collection rates and costs of collecting business rates.

The Audit Commission also highlights the following steps councils could take to maximise business rates:

- supporting existing business to do well and attracting new businesses to the area
- identifying and billing all business properties with a rateable value promptly
- using discretionary relief in an effective way, targeting businesses most in need
- preventing and tackling fraudulent claims for relief
- improving collection rates
- reducing collection costs.

As part of our VFM conclusion work we will be considering issues such as:

- Has the costs and performance of the Council been reviewed against similar organisations?
- What steps are being considered to increase the amount collected from business rates?
- Is an action plan in place?
- Is the Council making a robust estimate for its provision for business rate appeals?

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Emerging issues and developments

Local government guidance

Preparing for the Health and Social Care Integration Transformation Fund

The 'Integration Transformation Fund' is a single pooled budget for health and social care services to work more closely together in local areas. The Integration Transformation Fund statement, signed on 8 August between the LGA and NHS England sets out the background and provides a roadmap for local areas to plan in the run up to the fund taking full effect from 2015/16. Authorities need to plan with their partners for access to the fund. In summary:

- £3.8bn will be available for 2015/16, with funds transferred mainly from existing CCG budgets
- in order to access and deploy the fund locally, CCGs and local authorities will need to prepare joint plans signed off by Health & Wellbeing Boards
- even though the funds are not available until 2015/16, local areas will need to work together to produce two ear plans for 2014/15 and 2015/06. This is because access to £1bn of the funding in April 2015 is performance related, taking account of achievements in 2014/15
- ultimately Ministers will approve and sign off the plans, following review and assurance from NHS England

Consider:

- How is the Council planning to work with its partners to formulate joint plans and obtain funding?

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Emerging issues and developments

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Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

The Council's Head of Governance is presenting the findings from 'Protecting the Public Purse' so it is recommended that members consider:

- Is there a properly functioning procurement process in place, where duties are clearly segregated?
- Is there an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

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Emerging issues and developments

Accounting and audit issues

Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of the other key consultation issues, our views were:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.
- Infrastructure assets - we supported the adoption of IFRS based accounting for infrastructure assets. We recognise the practical difficulties in doing this and have offered to work with CIPFA/LASAAC and local authorities to help overcome these difficulties.
- Schools - we emphasised the importance of addressing the accounting issues for schools as a matter of priority, particularly because this is an area for which the Whole of Government Accounts are currently qualified.

Consider:

- Has the Council reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?

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Emerging issues and developments

Accounting and audit issues

Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

We are working with the Finance Team to ensure that:

- your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- the finance team have reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure the Council complies with other aspects of the Code requirements?
- any non-compliance is immaterial and an action plan been put in place to address any such non-compliance issues in future years?

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Emerging issues and developments

Accounting and audit issues

Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a briefing note on the Local Audit and Accountability Bill. The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

The Council's Head of Governance is presenting a paper to explain how the proposed audit arrangements under the Draft Local Audit Bill will affect you.

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